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SUBJECT: TOBACCO FIRMS COMPLAIN OF CIGARETTE SMUGGLING FROM COLOMBIA

Summary

1. (SBU) SUMMARY On October 1, Economic and Commercial Counselors met with representatives of Philip Morris and British-American Tobacco, the two largest cigarette companies in Venezuela, who raised the impact of contraband cigarettes in the domestic Venezuelan market. The particular focus was on the "Universal" brand of cigarettes that is being produced in Colombia exclusively for the contraband market in Venezuela. Universal has been so successful that it now accounts for 8 percent of Venezuelan domestic cigarette sales and counterfeit versions of Universal itself are now on the market. The Venezuelan tobacco companies report that despite the volume of illicit cigarette trade between Colombia and Venezuela, authorities in neither country have taken concrete steps toward interdiction. END SUMMARY

The Contraband Cigarette Issue

2. (SBU) Economic and Commercial Counselors met on October 1 with Daniel Montealegre, Director of Government Affairs and Pedro Sosa, Legal Counsel for Tabacalera Nacional, the local subsidiary of Philip Morris; Gerardo Anselmi, Director of Institutional Relations for Bigott, the local subsidiary of British-American Tobacco, and Carmen Martinez, Executive Director of the Colombian-Venezuelan Chamber of Commerce. The tobacco companies requested the meeting in order to discuss what they see as an increasing threat to legitimate tobacco companies in Venezuela from contraband products. According to the industry, 17 percent of the Venezuelan cigarette market is made up of contraband product. The remainder of the market is dominated by Bigott (representing the Belmont, Consul, Lucky Strike, and Kent brands) with a 69 percent market share and Tabacalera Nacional (Marlboro) with 14%

3. (SBU) The companies, primary concern was about the "Universal" brand of cigarettes. This brand, they advised, is produced by Protabaco, one of the largest Colombia tobacco companies. There is no legitimate market for Universal cigarettes in Venezuela, and the Universal trademark in Venezuela is not owned by Protabaco. According to the industry, the Universal cigarettes that find their way the Venezuelan market are supposedly exported to the free trade zone in Curacao and are either imported into Venezuela from there or never go to Curacao and are smuggled across the Colombian-Venezuelan frontier. Bigott and Tabacalera Nacional claim that there is clear evidence that the Universal product is intended for the Venezuelan market in the fact that the Venezuelan health warning is printed on the packages and the cigarettes are 50mm in length, which is a peculiarity of only the Venezuelan and Japanese markets. As a point of reference, the contraband product sells for approximately 800Bs. (US\$.42) versus 2000Bs. (US\$1.04) for legitimate products, with the difference largely arising from the fact that no taxes are reflected in the price of Universal.

4. (SBU) The industry representatives stated that contraband cigarettes have been a problem in Venezuela for some time and the quantity of contraband on the market has increased over the last seven years. At the apex in 1999, contraband cigarettes represented 25 percent of domestic sales, but subsequent exchange controls served to undermine smugglers as their ability to obtain the necessary hard currency for imports was significantly diminished. However, they have seen an upswing in contraband as foreign exchange has become more freely available.

Government Inaction Continues on Both Sides of the Border

15. (SBU) Queried as to the status of enforcement efforts, the

industry representatives said that Colombian authorities have thus far been uncooperative with the requests for assistance from the Venezuelan tobacco sector, no doubt due in part to the fact that Protabaco holds a 40% market share in Colombia. Similarly, they stated that the Venezuelan authorities do not appear to be particularly interested in pursuing interdiction despite the fact that 53% of the price of legitimate cigarettes is tax revenue.

Comment

16. (SBU) Cross-border smuggling is nothing new, of course. That a major Colombian company would consider itself free to create an entire contraband brand is a new wrinkle and would indicate that Venezuela's customs authority, either through indifference, lack of resources, or corruption is making little effort to stop the illegal trade from going forward. Earlier in the Chavez administration, the GOV had given some priority to stopping illegal imports from competing with national industry. (The main area of focus was the garment industry, where it imposed detailed country-of-origin labeling requirements). However, interest in this issue has faded, especially as the GOV has become ever more solicitous of the burgeoning sector of informal vendors, who form the principal distribution channel for smuggled goods (including Universal cigarettes). When the Venezuelan consumer goes down to the street market to pick up a pirated music or computer CD, or a knock-off designer shirt, he can also pick up some untaxed Colombian smokes and is likely to be able to do so for the foreseeable future.
Brownfield

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